



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Charlotte Firefighters' Retirement System Act.
Bill Number: Senate Bill 273 (First Edition)
Sponsor(s): Senators Marcus, Salvador, and Waddell

SUMMARY TABLE

ACTUARIAL IMPACT OF S.B. 273, V. 1 (\$ in thousands)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
Local Impact					
City of Charlotte	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	-	-	-	-	-

ACTUARIAL IMPACT SUMMARY

Systems Affected: Charlotte Firefighters' Retirement System (CFRS)

Changes to Sec. 7 of S.L. 2001-22: The changes to this section increase the amount that a member must pay to purchase service credit for prior military service. Members who joined prior to July 1, 2021 would continue to pay the member and City contribution rate times the members' starting compensation plus 5% interest. Members who join on or after July 1, 2021 will pay the full actuarial cost of the additional service. Both Cavanaugh Macdonald, the actuary for CFRS, and Hartman & Associates, the actuary for the General Assembly, estimate that these changes will have no impact on the current contribution rates or liabilities of CFRS, but that they may reduce losses that might otherwise occur in the future.

Changes to Sec. 25 of S.L. 2001-22: The changes to this section increase the statutory City contribution rate, effective July 1, 2020, from 12.65% of compensation to 14%, increased further by 2% per year for the next 5 years, up to a maximum of 24% of compensation, where it will remain unless the Actuarially Determined Employer Contribution (ADEC) falls below 24%. The new contribution rates are already current practice, so the changes simply make the law consistent with that practice and are not expected to increase contributions by themselves. Cavanaugh Macdonald notes that the higher contributions will result in lower future ADECs, but that they are not sufficient to fully amortize the unfunded liability of CFRS. Hartman & Associates notes that the higher contributions are expected to increase the CFRS funded ratio.

Changes to other sections of S.L. 2001-22: The changes to other sections are clarifying, grammatical, or administrative in nature. Both actuaries estimate that these changes will have no material impact on the contribution rates or liabilities of CFRS.

ASSUMPTIONS AND METHODOLOGY

The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2019 actuarial valuations, except where new assumptions based on the experience study completed in 2020 would have a material impact on the results. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 7/1/2020 unless otherwise noted, M = millions)	
Active Members	
Count	1,067
Compensation	\$83M
Average Age	39
Average Service	12.7
Inactive Members	
Count	16
Retired Members	
Count	765
Annual Benefits	\$39M
New Retirees During Year Ended 7/1/2020	26

Financial Statistics (as of 7/1/2020 unless otherwise noted, M = millions)	
Accrued Liability (AL)	\$759M
Actuarial Value of Assets (AVA)	\$580M
Market Value of Assets (MVA)	\$558M
Unfunded Accrued Liability (AL - AVA)	\$179M
Funded Status (AVA / AL)	76%
Required Employer Contribution for FY 2021-22 (as % of pay)	28.91%
Salary Increase Assumption (includes 2.50% inflation)	3.75% - 9.00%
Assumed Rate of Investment Return	7.25%
Cost Method	Entry Age Normal
Amortization	15-30 years, closed, level % of pay
Demographic assumptions based on 2014-2019 experience, Pub-2010 mortality, and projection of future mortality improvement with scale MP-2019	

Benefit Provisions	
Formula	2.6% x Service x 2 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/5; 50/25
Employee contribution (as % of pay)	12.65%
Social Security	Members do not participate in Social Security

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from the Fiscal Research Division.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Proposed Changes to Act", January 15, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "Senate Bill 273: An Act Amending the Law Establishing the Charlotte Firefighters' Retirement System", March 24, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State or local government retirement systems and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

ESTIMATE PREPARED BY

David Vanderweide

ESTIMATE APPROVED BY

Mark Trogdon, Director of Fiscal Research
Fiscal Research Division
April 14, 2021



Signed copy located in the NCGA Principal Clerk's Offices